

Wheat Market Outlook and Price Report: August 27, 2018
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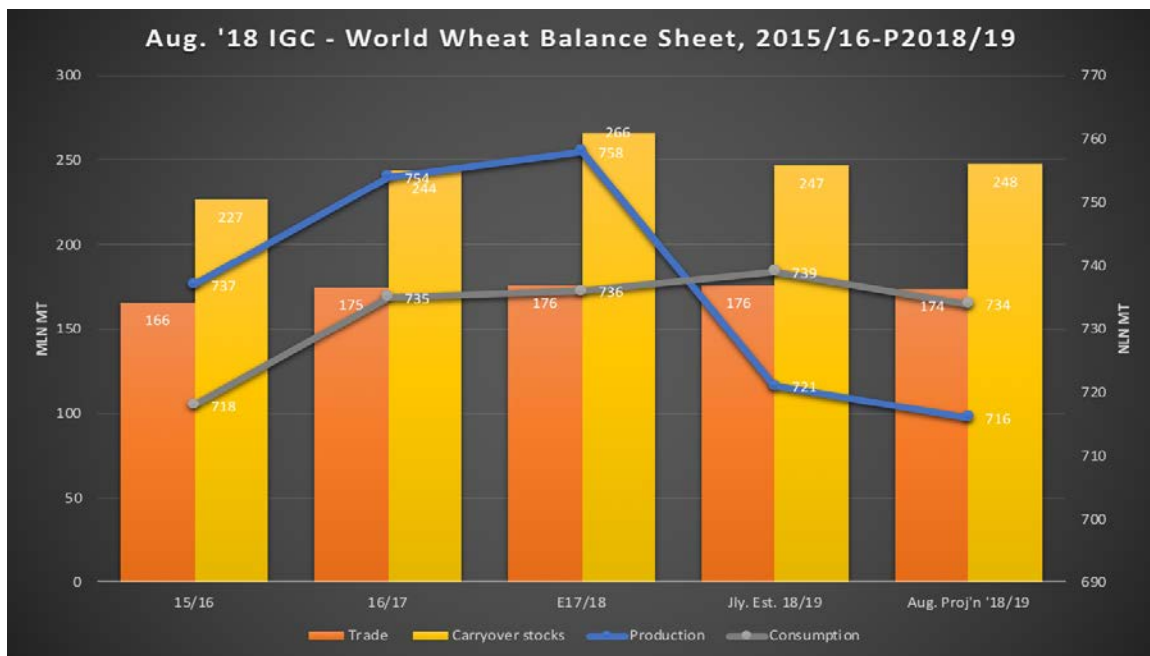
i) Background and Rationale for the Report

The following wheat market outlook and price report will be published on a weekly basis on the Sask Wheat Website. The report provides producers with an overview of world wheat markets, a market forecast, and benchmark prices at both the primary elevator and export positions (FOB Vancouver or elsewhere).

The report is made up of several sections. Following this section, a World Wheat overview is provided, which includes a summary of wheat market fundamentals, world production and trade, and a wheat market outlook. This is followed by several price tables, which include primary elevator bids at various Saskatchewan locations (Table 1), grain spreads (Table 2), and FOB port prices and basis (as measured by subtracting the primary elevator price (Rosetown) from the relevant port location price for individual crops) (Table 3). Table 3 is preceded by a description of the various assumptions, definitions and methodology used in arriving at the FOB port prices and in the export basis calculation.

ii) Wheat Market Outlook Aug. 27, 2018

International Grains Council (IGC) August Report:



- In their August report, the IGC lowered their production estimate for 2018/19 global wheat by another 5 mln mt to 716 mln mt. But world ending stocks increased by 1 mln mt to 248 mln mt because wheat consumption was also lowered by 5 mln mt to 734 mln mt due to increased prices.
- Note that 2018/19 global wheat consumption still outweighs wheat production by 2.5% (+18 mln mt; gap grey vs. blue lines).

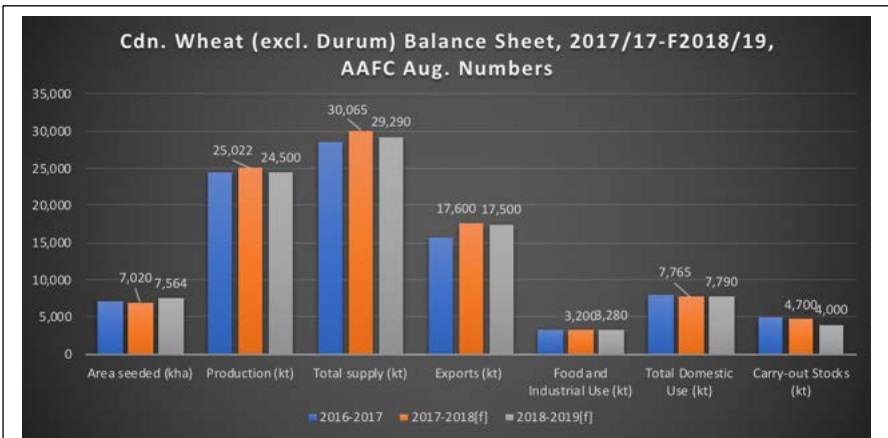
➤ **Global wheat production and trade:**

There is a lot of competition in the wheat markets as wheat is produced around the world. Below is a brief synopsis on last week's market events in the major wheat origins.

- Futures:** Sep'18 contract Chicago winter wheat closed at 514-6 down 7-2 cents in Friday's trade. Sep'18 contract Kansas hard red winter wheat closed down 8-0 cents at 519-2. In Minneapolis, Sep'18 contract hard red spring wheat closed at 572-6 down 9-0 cents in Friday's trade, while Dec'18 hard red spring wheat closed at 590-2, down 9-0 cents for the day. For the week, wheat was from 20 cents lower to a 1/2 cent higher. Wheat futures were hit hard at the end of the week on rumours of heavy rain in Australia.
- Funds:** Fueled by higher expectations of USA crop yields and failing demand in China, Funds were sellers of all classes of grain last week. The Spec funds retained a long in wheat, but are now short corn and beans. The corn short could be considered an offset to the wheat long. Index funds still remain long all grains and oilseeds.
- Matif:** Matif wheat followed the US markets, losing €10/mt, with EU shipments still 40% lower than last year.

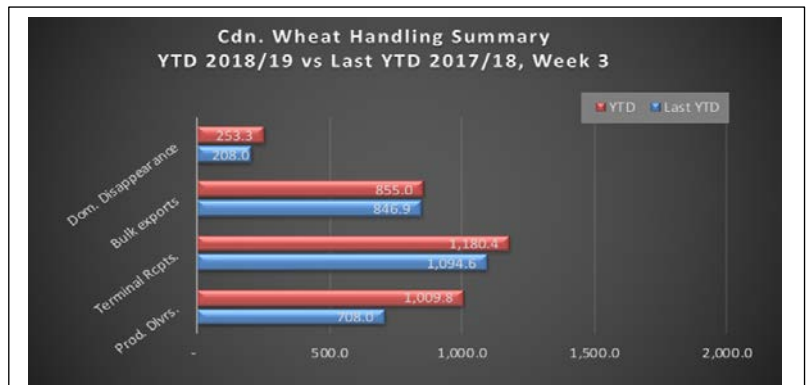
Canadian wheat:

- The SK harvest is only ~8% complete, so we are waiting for further progress to adjust yields.
- FWIW, the Reuters survey of 2018 production by crop as forecast by the trade put the all Cdn. wheat production estimates (incl. Durum) at 30.6 mln mt (high estimate 32.7 mln mt; low estimate 29.3 mln mt) against 30 mln mt in 2017. USDA is expecting 32.5 mln mt, and Cda's AAFC 30.3 mln mt.
- The **AAFC August balance sheet** for 2018/19 wheat (excl. durum), was unchanged from to the July balance sheet. Acreage seeded, yield, production and supply remained the same as in July at 7.6 mln ha, 3.33 mt/ha (49.5 bu/ac), 24.5 mln mt, and 29.3 mln mt, respectively. 2018/19 exports and food & industrial use also stayed the same as the July numbers at 17.5 mln mt (why exports lower than last year?) and 3.3 mln mt, respectively. *Wheat ending stocks are forecast to fall by 15% to 4 mln mt.* Canada western hard red spring (CWRS) wheat accounts for 79% of the total wheat area at 5,963k ha, up from 5,739 k ha in 2017/18.



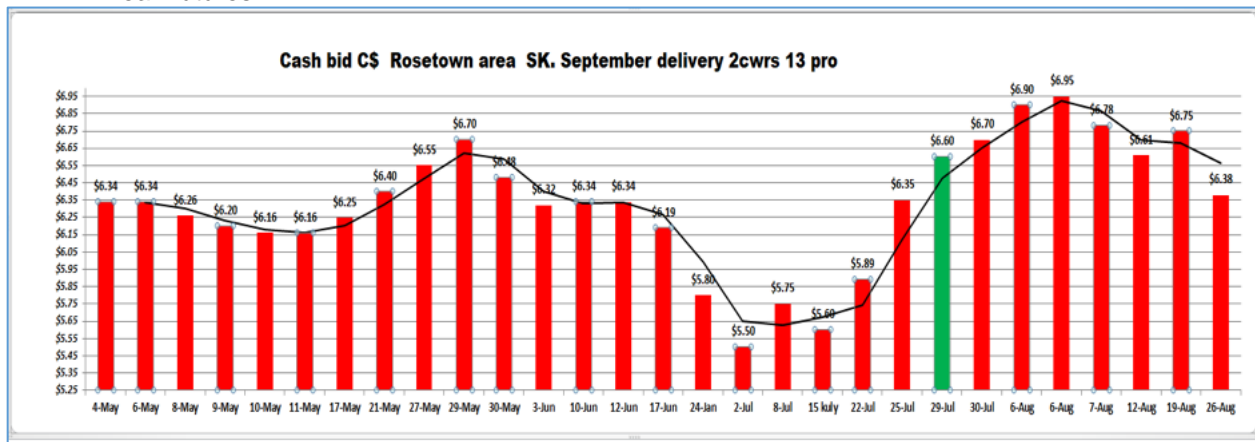
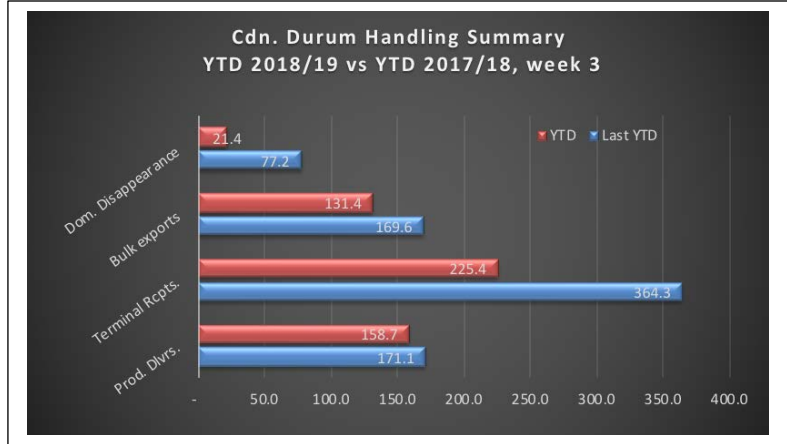
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- According to the **Week 3 CGC handling data**, Canadian wheat handling seems to be off to a strong start compared to last crop year. Producer deliveries have already exceeded 1 mln mt, which is 48% bigger (+302k mt) than during week 3 of the last crop year. Terminal receipts are also ahead by 8% (+86k mt) while canola receipts are behind 16% (-60k mt). YTD exports are about the same at 855k mt, and domestic



disappearance is 22% of last years' (+45k mt). Could it be that exporters are putting more emphasis on wheat while Chinese fall demand for canola seems slower than last years.

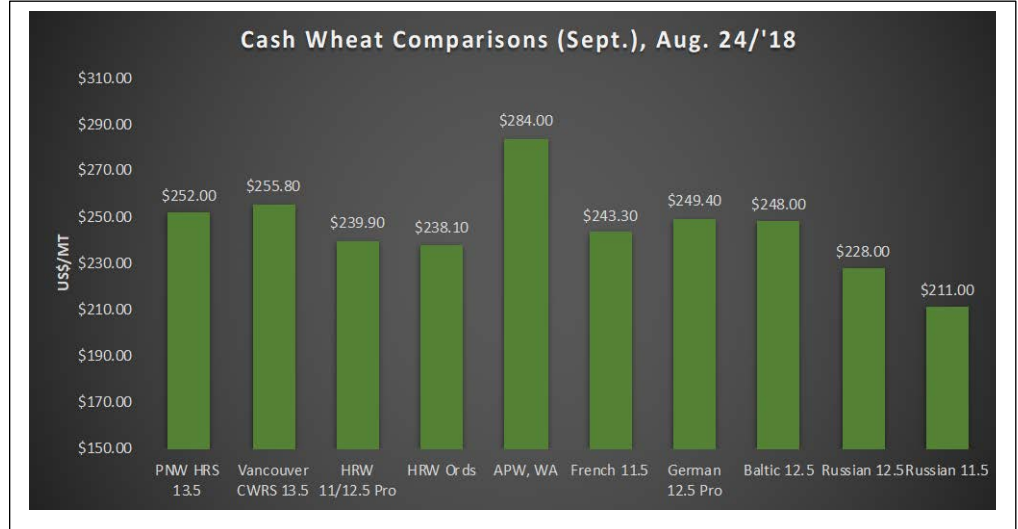
- The Canadian **durum wheat handling** numbers are lower than last years in all categories: Producer deliveries are down 7% (-12k mt), terminal receipts are down 38% (-139k mt), exports are down 23% (-38k mt), and domestic disappearance is down by 72% (-56k mt).
- Cash wheat bids dropped given the weak futures:



US wheat:

- NASS reports earlier last week that the US spring wheat harvest is 60% complete (vs. 55% last year and 45% average) with 74% Gg/Exc. (35% last year). WA was the only state to show improvement; ND was 5% lower and MN was down 6%. Winter wheat harvest is 97% complete.
- The 2018 U.S. HRW harvest is winding down and represents exceptionally good qualities for millers and processors. The first data on vitreous kernel content showing 87% DHV is an indication that HRS quality is holding up well. The first durum quality data is expected within the next week or two. SW harvest should be complete soon and the results show #1 grade with very low moisture and low protein levels.
- US **export sales** last Thursday were expected at 500-800k mt, but they came in at a very disappointing 240k mt net sales for '18/19 (-70% from last week, and -49% from the 4-wk. avg.). US exports amounted 460k mt, with the largest shipment to Japan (142k mt).
- Cash wheat market: - Given the recent futures losses and weaker premiums, HRW is now around \$9.30/mt below comparable EU wheat. Meanwhile, SRW is around \$15 below French wheat. And basis the much larger carrying charges in the Black Sea, HRW is even money with Russian wheat by December. *North American wheat should feature in the cash markets much more prominently than last crop year, especially Dec. onward.*

- *The big question now is when this is going to happen?*



Australian wheat:

- The Australian forecast turned wetter in the east.
- Australian wheat futures fell A\$14/mt to 3-week lows, and interior markets also sold off on the wetter forecast. The rain should stabilize yields but the scope for improvement is very limited given the extent of the already irreversible damage.

Argentine wheat:

- Argentina was dry except for showers in the northeast.
- The Buenos Aires Grain Exchange (BAGE) put crop ratings at 50% Gd/Exc. versus 51% last week and 78% last year.
- Values: 12% protein wheat fell by US\$10/mt to US\$225 for December '18.
 - (An additional US\$5/mt per month carry, less US\$5/mt per ½% of protein).

EU wheat:

- The German Ag Ministry reported that they expect Germany to be a net grain importer this crop year for the first time since 1986. 2018 German wheat production was estimated at 19.4 mln mt vs. 24 mln mt in 2017.
- EU shipments are still 40% down relative to last year.
- Matif wheat followed the US markets, losing €10/mt last week.

Black Sea wheat:

- Russian harvest data showed yields down 20% compared to the same date last year, and down 15% compared to the equivalent stage of harvest progress, compared to the USDA 14% decline.
- The trade generally believes Russia will wait till the 30 myn tonnes of exports are registered before making any decision on export restrictions.
- Black Sea cash markets remain very hard to define and values are all nominal. Call Sep Russian 12.5% protein wheat down US\$4/mt for the week at US\$227/mt FOB. There are no prices for deferred shipments.

➤ **Significant purchases/ trades:**

There has not been much trade and there is sufficient Russian/FSU wheat to take care of the demand.

- **Tunisia** bought 50,000 tonnes October at \$238.50/mt.
- **US export sales** last Thursday were expected at 500-800k mt, but they came in at a very disappointing 240k mt net sales for '18/19 (-70% from last week, and -49% from the 4-wk. avg.).

➤ **Wheat Market Outlook:**

Significant events:

- The trade generally believes Russia will wait till the 30 mln tonnes of exports are registered before making any decision on export restrictions. This means there is sufficient wheat available to take care of nearby buying interests and tight money supplies are making buyers cautious.
- The poor export performance for US wheat will likely continue to weigh on US futures values.
- The Australian crop potential will be closely watched given recent rains.

➤ **Outlook:**

For the present, reports of better yields projected for the US corn and soybean crops, the Fund longs in wheat, and very poor exports will likely continue to weigh on US futures. Russia and FSU supplies are sufficient for now to take care of export demand. More rain in Aussie rain will be bearish on futures if it occurs.

However in our view, the wheat numbers remain tight and the export numbers the USDA predicts for exporting countries are not possible. We will require some price rationing, which as we have said before, will not happen until we get into 2019. – Unfortunately, patience remains the key.

iii) Primary Elevator Price Tables and Grade Spreads

Table 1: Canadian Primary Elevator Bids, in Canadian Dollars per Bu and per MT

Date: August 27, 2018					
NW Sask	Spot		NW Sask	Deferred	
	(bu.)	(mt)		Nov. '18 (bu.)	Nov. '18 (mt.)
1 CWRS 13.5	\$6.30	\$231.49	1 CWRS 13.5	\$6.38	\$234.43
1 CWAD 13.0	\$6.25	\$229.65	1 CWAD 13.0	\$6.24	\$229.28
1 CPSR 11.5	\$5.84	\$214.58	1 CPSR 11.5	\$5.89	\$216.42
SW Sask			SW Sask		
1 CWRS 13.5	\$6.69	\$245.82	1 CWRS 13.5	\$6.80	\$249.86
1 CWAD 13.0	\$6.94	\$255.00	1 CWAD 13.0	\$6.91	\$253.90
1 CPSR 11.5	\$5.68	\$208.71	1 CPSR 11.5	\$5.86	\$215.32
NE Sask			NE Sask		
1 CWRS 13.5	\$6.56	\$241.04	1 CWRS 13.5	\$6.54	\$240.31
1 CWAD 13.0	\$6.77	\$248.76	1 CWAD 13.0	\$6.85	\$251.77
1 CPSR 11.5	\$5.64	\$207.24	1 CPSR 11.5	\$5.69	\$209.07
SE Sask			SE Sask		
1 CWRS 13.5	\$6.61	\$242.88	1 CWRS 13.5	\$6.66	\$244.72
1 CWAD 13.0	\$6.91	\$253.90	1 CWAD 13.0	\$6.99	\$256.84
1 CPSR 11.5	\$5.62	\$206.50	1 CPSR 11.5	\$5.69	\$209.07

Table 2: Grade Spreads, in Canadian Dollars per Bu and per MT

Avg. Grade Spread/ Pro Discounts	Cdn\$/bu.	Cdn.\$/mt
1 CWRS 14.0	0.11	4.15
1 CWRS 13.5	Base Grade	Base Grade
2 CWRS 13.5	(0.18)	(6.61)
1 CWRS 12.5	(0.37)	(13.60)
1 CWAD 13.0	Base Grade	Base Grade
1 CWAD 13.5	0.03	1.10
2 CWAD 13.0	(0.79)	(29.03)
2 CWAD 12.5	(0.97)	(35.64)

iv) FOB Wheat Prices and Export Basis Calculation

Background and Rationale:

Reporting FOB prices at port position and primary elevator prices allows the reader to gain an understanding of both local and international wheat prices and to understand the relationship between the two, as measured by the export basis. Export basis can be defined as FOB port position prices minus the primary elevator prices at any given prairie delivery location, and is therefore reflective of transportation costs plus any premiums being captured by terminal grain elevator companies or the railway companies, at any given time.

In general, a widening basis is indicative of decreasing system performance in terms of either reduced port capacity or rail service, or both. A narrowing basis is indicative of increased available port capacity and/or better ability of the railways to provide ample service to grain shippers. In this regard, tracking these prices over time has value both in terms of producers being able to time the selling of their grain but also in terms of evaluating and setting policy related to various transportation and capacity issues.

Gray (2015) has calculated a normal basis to be in the range of C\$72/tonne. During the 2013/14 crop year the export basis for wheat widened to approximately C\$250/tonne, which indicated an inability of the grain handling and transportation system to adequately handle the record crop produced that year. This occurrence has highlighted the need to improve the level of rail service and take measures to expand port capacity where possible. It has also underscored the need for better price transparency and market information within the grain sector.

Assumptions, Definitions, and Methodology

The following background information should assist in understanding and interpreting international market signals and to relate them to the 'local' Saskatchewan wheat market:

- The price information generated for the weekly report is designed to show farmers at what price levels several wheat classes are trading at local primary elevators (Table 1) and in nearby international markets (Table 3). To express the Export Basis¹ (see *Export Basis* in Table 3) defined as Cdn. FOB Prices minus primary elevator bids, the FOB prices are

¹ Gray, R.S. (2015). The Economic Impacts of Elevated Export Basis Levels on Western Canadian Grain Producers 2012/13, 2013/14 and 2014/15.

“The difference between FOB Vancouver prices and the Saskatchewan elevator cash bids to producers is referred to as export basis: Basis can refer to the difference between any two prices. As the largest volume port, Vancouver FOB, minus the elevator bid prices representative measure of the “export” basis for grains in Western Canada.”

translated into Cdn. dollars from US dollars and compared to current actual primary elevator Street prices at Rosetown, Saskatchewan (see *Street Prices* in Table 3). Rosetown is used as a proxy for all primary elevators in the basis calculation. The actual handling and transportation costs from the West Coast to delivered elevator (Rosetown area) range from ~C\$58.00-C\$74.72/mt, depending on number of cars moved and elevator used.

- Approximate relationship between U.S. wheat classes and Canadian wheat classes:
 - DNS 14% in the Pacific North West (PNW) ≈ 1 CWRS 13.5% in Vancouver
 - HRS in the Pacific North West (PNW) ≈ 2 CWRS 13.0% in Vancouver
 - HRW in the Pacific North West (PNW) ≈ 3 CWRS in Vancouver
 - SW (lowest price wheat) ≈ CPS red (mostly fed domestically)
 - HAD (Lakes) ≈ CWAD (Thunder Bay/ Lawrence)
 - Abbreviations: DNS (Dark Northern Spring Wheat); HRS (Hard Red Spring Wheat); HRW (Hard Red Winter Wheat); SW (Soft Wheat); HAD (Hard Amber Durum Wheat); CWRS (Canadian Western Red Spring Wheat); CPS (Canada Prairie Spring Wheat); CWAD (Canadian Western Amber Durum Wheat)

- Hard wheat price calculations:
Exporters in Western Canada generally derive their primary elevator wheat prices from HRS values at the West Coast (Pacific Northwest - PNW). Similarly, HRW values are used for lower grade (3) CWRS.
 - West Coast HRS and HRW values essentially dominate the international hard wheat trade and determine its basic value.
 - If premiums are paid for 1 CWRS 13.5, elevator companies are often able to retain the premium

- Durum wheat price calculations:
The primary export route for Canadian durum wheat is still through Thunder Bay, not the West Coast of Canada.
 - Nevertheless, the Pacific Coast has increased in importance for durum over time with 38% of total export volume crop year to date.
 - Italy is the single biggest buyer of Canadian durum wheat with 27% of total Canadian durum exports YTD (East Coast shipments).

- Optional origin grain sales:
Most major international grain companies sell 'optional origin' wheat to their customers and often cover their sales 'at best' closer to the shipment position. The Canadian grain system is not conducive to servicing optional origin sales because the volume of wheat kept in storage in port today is much smaller than prior to deregulation of the Canadian wheat market.

Table 3: Relevant FOB Prices and calculated Basis, US & Canadian Dollars per MT

Relevant FOB Prices and Export Basis				August 27, 2018
Type of Wheat	FOB Prices CDA ¹ (calculated)		Street Prices	Export Basis ²
	West Coast (Cdn./mt\$)	Great Lakes (Cdn./mt)	Rosetown (Cdn./mt)	Basis: West Coast-Centr. SK (Cdn\$/mt)
DNS 14.0	\$322.54	\$308.24		
HRS	\$315.39			
HRW 11.5	\$303.96			
SWW 12.0	\$292.52			
1 CWRS 13.5 ³	\$322.54		\$238.84	\$83.70
2 CWRS 13.0 ³	\$315.39		\$222.30	\$93.09
3 CWRS ³	\$303.96		\$207.60	\$96.35
CPS ³	\$285.85		\$203.56	\$82.29
1 CWAD ⁴		\$328.73	\$248.02	\$80.71
Competing wheat:	US\$/mt			
Russia 12.5 (Black Sea, 25k mt)	\$227.00			
French 11.5 (Rouen)	\$241.17			
APW 10.5 (W Coast)	\$284.00			
Argentine 12.0				

¹ FOB Prices CDA = FOB US\$ converted into Canadian Currency
² Export Basis = FOB Prices CDA minus Cdn. Street Price
³ DNS 14% = 1 CRWS 13.5%; HRS = 2 CWRS 13.0%; HRW = 3CWRS; SWW = CPS
⁴ Values derived to Lakehead FOB

ADDENDUM

Futures Driven Basis Calculation, Canadian Dollars per MT

Canadian Wheat - World Price Parities					August 27, 2018
Canadian Funds	Grade				
PNW value/Vancouver	1CWRS13.5	2CWRS	3CWRS	Winter wht.	CPS
May/June delivery	\$8.60	\$8.40	\$8.09	\$7.78	\$7.78
Parity Track Rosetown	\$7.10	\$6.91	\$6.59	\$6.28	\$6.28
Track Bid Rosetown Area	\$6.50	\$6.05	\$5.65	\$5.54	\$5.54
Gross Margin at Elevator (\$/bu)*	\$0.60	\$0.86	\$0.94	\$0.74	\$0.74
Gross Margin at Elevator (\$/mt)*	\$22.05	\$31.43	\$34.70	\$27.31	\$27.31

* to cover elevation, elevator market risk, margin